



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

PEOPLE'S-BANKS IN ITALY.

M. LUZZATTI rendered Italy an inestimable service when he resolved to introduce into his own country institutions similar to the co-operative banks of Schulze-Delitzsch and Raiffeisen which had produced such admirable results in Germany. In the economic development of the country the people's-banks, to whose establishment he gave the initial impulse, have played an important rôle. Agriculture, commerce, and industry have found in them much-needed allies. To the poor especially they have been in many ways of great assistance. And at the time of the Italian banking crisis, when the strongest institutions were severely shaken or destroyed, the people's-banks made a brave resistance, but a small proportion of the existing associations being forced into liquidation.

It was in 1864, fourteen years after Schulze-Delitzsch and ten years after Raiffeisen had made a beginning, that the first people's-banks were established in Italy.¹ Some years before Francesco Vigano, one of the most devoted partisans of co-operation, had tried to induce his compatriots to imitate what was being done in Germany. M. Luzzatti is said to have been the prime mover in the affair. After an attempt of little importance made at Lodi in 1864, he decided in 1865 to found the people's-bank of Milan. Several friends promised him their aid, rather out of sympathy with his aim than because they anticipated success. It was an association mainly of good will, for the capital at first was only 700 lire.² M. Luzzatti subscribed 100 lire and, as he

¹ The question of popular credit had been considered for the first time in Italy at the Labor Congress of Vercelli in 1858. The matter was again introduced at the Congress of Novi in 1860. Here certain propositions presented by the advocate Vincenzo Boldrini were approved. In 1863, with the aid of several friends he drew up the statutes of a "Workingmen's Credit Association." His plans were strongly opposed by M. Luzzatti, who also led the opposition to M. Alvisi, founder of a "people's-bank" in Florence. This bank began brilliantly but its organization was defective and it soon failed disastrously.

² The lira (plural lire) is equivalent to a franc. Seven hundred lire represent then, about \$140.

said jocosely, he was the millionaire of the company. The bank opened its doors May 25, 1866, and began business on a small scale. An unforeseen event was destined to produce a rapid increase. War broke out with Austria and a financial crisis quickly followed. Runs were made upon savings- and deposit-banks; the premium reached 10 per cent. and at Milan riots seemed imminent. With the approval of the municipal authorities the people's-bank issued notes of two, three, and five lire upon security. By this opportune measure the panic was stopped. This gave the bank a high reputation and in one year its membership reached 1153 and its capital 217,000 lire. By the end of twelve months it had discounted to the amount of 687,606 lire, and received on deposit 341,251 lire. Its total transactions were more than 11 millions, the profits being 16,030 lire.

The movement thus begun has been continued. In 1883 Léon Say¹ spoke with enthusiasm of this institution which had then a capital of 7,891,000 lire, a reserve-fund of 3,314,000 lire, large deposits, and accounts with 228 people's-banks, transacting business amounting to 216 millions annually. Equally warm was the appreciation of M. Eugène Rostand several years later.² The figures below, taken from a complete table given by him, show that his praises were fully justified.

In lire	1866	1872	1878	1884	1889
Capital	217,700	6,906,450	7,670,800	7,981,650	8,264,700
Reserve	7,902	2,898,444	3,221,736	3,990,825	4,132,350
Discounts	687,606	39,839,842	108,131,411	104,509,245	115,040,439
Deposits	341,521	13,857,772	53,986,430	56,801,532	54,477,292
Transact.	10,957,089	779,127,585	1,464,697,853	2,056,949,131	1,796,044,724
Net profits	16,030	600,310	1,010,796	1,073,068	1,281,104

Notwithstanding the remarkable success of the people's-bank of Milan, the establishment of similar institutions was rather slow;³ there were 50 in 1870, 109 in 1875, and 140 in 1880.

¹ *Dix jours dans la Haute Italie.*

² *Une visite à quelques institutions de prévoyance en Italie.*

³ Until 1882 people's-banks found a great obstacle in the legislation applying to joint-stock companies.

From this time the increase was so much more rapid that in 1887 there were 608 and in 1894, 720. The following figures show the increase in general business.¹

In millions of lire	1870	1875	1880	1885	1890	1894
Capital and reserves	14,922	42,368	50,610	79,308	118,235	114,722
Deposits - -	32,687	113,565	179,898	326,923	422,089	372,164
Bills discounted -	25,534	85,730	121,539	209,130	257,652	214,490
Loans - -	6,299	18,096	21,149	29,518	38,472	29,423
Securities - -	3,474	29,783	50,323	87,514	115,997	136,002

No other Italian bank can show results like those obtained by the people's-bank of Milan. The statistics published in 1895 give only ten banks having a capital amounting to one million lire (\$200,000), while more than 300 banks had a nominal capital of less than 50,000 lire (\$10,000), the paid-up capital being still smaller.² But in spite of this the total resources of the people's-banks are relatively large enough to make it easy to understand the important part they play in the economic life of the country.

The stockholders of the banks belong to different classes of society, but it is the middle class that furnishes the greatest number. The following classification refers to the years 1876 (77,340 members) and 1893 (405,341 members). It will be observed that the number of small farmers has notably increased, while the number of members among the industrial and commercial classes has decreased:

¹ Country loan-banks are not included.

² At the close of 1893 the people's-banks having a very small capital were as follows:

Castelletto Merli,	5,805 lire.	Serralunga,	1,190 lire.
Montaleri,	755 "	Casalino,	3,587 "
Pozengo,	900 "	Ponzano Monferrato,	1,165 "
Odalengo Piccolo,	1,690 "		

In spite of this small capital, and although their business was exclusively in granting of agricultural credit, these banks have not been classed among the country banks, their liabilities being limited by their charters to the amount of shares. It was this statutory liability that in the inquiry of 1893 served to distinguish the people's-banks from the country banks.

	1876	1893
Large farmers - - - - -	6.40 per cent.	6.56 per cent.
Small farmers - - - - -	16.80 " "	24.12 " "
Farm laborers - - - - -	3.20 " "	4.66 " "
Large manufacturers and merchants -	4.40 " "	4.77 " "
Small manufacturers and tradesmen -	32.15 " "	25.25 " "
Workingmen - - - - -	7.25 " "	8.11 " "
Employees, teachers, professional men	16.65 " "	18.86 " "
All others - - - - -	13.15 " "	7.67 " "

These figures apply to all people's-banks, but some of them have only one class of stockholders; for example, the banks established among employees for the purpose of opposing usury and encouraging saving. The first of these was established in 1887; at the close of 1894 there were twenty-nine.

As is well known, the banks of Schulze-Delitzsch and those of Raiffeisen are based on the principle of unlimited liability, this makes it necessary to choose new members with great care. In many cases the Raiffeisen banks have no capital except their reserve funds, the association capital being fixed at the minimum required by German law for registration. The Schulze-Delitzsch banks, on the contrary, have their capital divided into shares, which are usually considerable in amount. The stockholders pay up their shares in monthly installments, often continued for a long time. This feature had been adopted by Schulze to encourage and strengthen the idea of saving, and he considered the method, and yet more the principle, of unlimited liability, indispensable to the success of people's-banks.

The principle of unlimited liability had a number of partisans in Italy. Francesco Vigano, especially, always advocated it in his writings. M. Luzzatti, however, did not believe that such a liability, the consequences of which might in certain cases be very serious, would be likely to be assumed by those to whom the plan ought to appeal, and he preferred to adopt the form of the ordinary joint-stock company, in which the liability is limited to the capital of the company, or to the amount of shares held. As in the German banks, the company's capital can be paid

in successive installments, but the shares are always for small amounts—Italian commercial law not allowing more than 100 lire as a maximum. A single stockholder cannot own an amount greater than that fixed by law (5000 lire being the maximum under the commercial code) and the payments must be finished within a period of ten months. The shares are not transferable until paid up in full. Members of the company who have retired, or their heirs, in case of death, are not freed from their proportionate share in the bank's liabilities until after the expiration of two years.¹

Following the example of the Schulze banks, the Italian banks of the Luzzatti type pay dividends to their stockholders, this being provided for by their statutes; but deductions are always first made for reserve funds and surplus. They also conform to the legal provisions in regard to boards of directors and the appointment of examiners. In many cases no salary attaches to these posts, only those positions requiring continuous or at least frequent service drawing pay.²

Aside from the capital and reserve funds the banks obtain the money needed for conducting business, not from loans as the German banks do, but from deposits, and principally savings-deposits. The deposits are so steady that the banks do not find it necessary to limit themselves to short-time operations. Some banks, especially those whose resources are sufficiently large to offer full security, issue bonds bearing a fixed interest.

¹ In contrast with the system in Germany, the Italian people's-banks ask at their founding no assistance from the state, from provinces, communes or from individuals. They enjoy, however, certain privileges, common to all co-operative associations, viz., (1) exemption from the registration tax and from stamp duties imposed on the admission or withdrawal of stockholders (commercial code, art. 228); (2) in the case of companies having a capital not exceeding 30,000 lire, exemption from stamp duties upon writs of execution during the first five years of their existence (law of Feb. 13, 1874); (3) exemption from the tax on transfer of shares when the capital does not exceed 50,000 lire (same law, art. 68); and (4) free publication of their reports in the joint-stock company bulletin.

² M. Henry W. Wolff mentions as examples the following salaries: president 1500 lire, cashier 1300 lire, head bookkeeper 1000 lire.

The branches are numerous, some banks having twenty or even more. It often happens that after having gained a clientele a branch becomes an independent bank, with the assistance of the principal house, which is never refused. The increase in the number of people's-banks is due in large measure to this.

The people's-banks of the Luzzatti type are not the only ones in Italy. In imitation of Raiffeisen, M. Wollemborg has established country banks founded upon similar principles. The advantages of such institutions had been discussed when the first people's-banks in Italy were founded. The matter was again brought up in 1880 by Senator Alexandre Rossi, and in 1882 by M. Ant. Keller in a memoir addressed to the Ladone Academy of Sciences, Arts, and Letters. But it was not until June 1883 that M. Léon Wollemborg founded at Loreggia the first country bank, the second being established in April 1884 at Cambiano by M. Niccoli. Like the Raiffeisen banks, the Italian country banks have no capital paid in by the stockholders,¹ their obligations being guaranteed by the unlimited joint liability of the members. Their characteristic points are (1) the peculiar method by which new members are chosen, they being required to furnish proof of their integrity; (2) the limited sphere of the company's activity which is confined to a small commune, a village, or a parish; (3) regulation by the annual general-assemblies of the form, the duration, and the amount of the loans that shall be made; and (4) the indivisibility of the company's capital, which is formed from undivided profits and (in banks where they are charged) from admission fees. In case the bank retires from business the capital must be deposited in some credit institution and the interest employed for the benefit of those dependent on charity until a new association founded on the same basis and in the same locality appears to make use of it.

¹ We have seen that it is only to conform to the requirements of the German law that the Raiffeisen banks exact a small payment from their members.

² The borrower must always declare the purpose for which he wishes to use the money asked for. If he employs it in any other way the administering council may exact the repayment of the sum or expel the borrower from the association.

Until 1891 the country banks were entirely secular, but after that date country banks explicitly Catholic were founded. Although one may censure this proceeding on the ground that a bank has nothing to do with the religious sentiments and beliefs of those connected with it, though much to do with their honesty and solvency, yet it must be acknowledged that the results attained have been entirely different since the religious question has played a rôle. According to statistics given by M. G. Micheli, while only 125 non-sectarian banks had been established up to 1897, the number of Catholic banks grew to 779 in the seven years 1891-1897. In certain dioceses especially, remarkable results have been attained. The eighty-seven dioceses of Brescia, Udine, Adria, Vicenze, Pádóne, Bergame, Verona, and Trévisé have 452 country banks.

In general Italian people's-banks carry on all ordinary banking operations; but while the most important perform them all, others devote themselves particularly to certain kinds of business, employing their resources in the manner most advantageous to their stockholders.

We have already said that the funds necessary for these operations are obtained from sums paid in by the stockholders, deposits upon current account, savings deposits and from the issue of bonds. The people's-banks located near large credit institutions can have their paper rediscounted so as to make readily available the greater part of their resources engaged in current operations. Some large people's-banks, about sixty, readily give the privilege of rediscounting for them to banks of smaller size. This opportunity is extensively taken advantage of. Statistics compiled in 1893 show that on discounts amounting to 992 million lire the banks had 206 million, or 28.84 per cent., rediscounted. For certain provinces the percentage is even higher, ranging from 59.89 per cent. in Liguria, 52.52 per cent. in Tuscany, and 44.46 per cent. in Pouille, to 4.14 per cent. in Sardinia.

Loans and discounts represent the most important part of the

operations of people's-banks. The loans show the advances made to members,¹ upon notes renewable one or more times; discounts are made by the purchase of ordinary commercial paper. The statements given in the annual reports of the people's-banks show sufficiently the importance of these operations.²

	Millions of lire		Millions of lire		Millions of lire
1871	56.210	1885	238.648	1892	274.743
1875	103.826	1890	296.124	1893	269.090
1880	142.688	1891	285.161	1894	243.913

It is especially interesting to know what sort of security this discounted paper affords—that is, what proportion of it the banks are unable to collect.³ The statistics for 1893 give the necessary data on this matter, and a presentation of the detailed figures referring to different provinces will not be amiss.

		Loans and discounts	Notes uncollected at end of year	Per cent.
Léumont	- - - - -	72,800,601	1,481,777	2.04
Liguria	- - - - -	20,696,799	108,293	0.52
Lombardy	- - - - -	290,788,125	948,773	0.33
Venetia	- - - - -	110,202,825	295,448	0.27
Emilia	- - - - -	137,877,175	1,651,535	1.20
Tuscany	- - - - -	45,784,231	1,222,105	2.67
Marche	- - - - -	20,144,275	360,060	1.79
Umbria	- - - - -	17,523,298	240,633	1.37
Latium	- - - - -	9,336,952	165,428	1.77
Albruzzeo and Molise	- - - - -	30,855,550	510,802	1.65
Campania	- - - - -	96,323,027	1,914,738	1.99
Pouille	- - - - -	57,899,381	2,894,618	4.83
Basilicate	- - - - -	8,792,607	1,676,919	19.07
Calabria	- - - - -	17,474,762	158,810	0.91
Sicily	- - - - -	53,065,489	1,740,572	3.28
Sardinia	- - - - -	883,303	10,623	2.22

¹ Since farmers form a little more than 30 per cent. of the membership of people's-banks, credit is naturally granted to farmers. Because of repeated renewals, such loans run for long terms—one or two years. They are granted for the purchase of live stock, the improvement of land, the erection of farm buildings, as advances on crops, etc.

² The long-term notes upon security are included.

³ Generally, loans are made only on notes bearing at least two signatures, and for three months' time, or one signature if the amount does not exceed the nominal value of the shares owned by the borrower. Notes bearing two signatures must not run longer than six months.

The general average is 1.55 per cent.—a figure which, though far from large, is yet higher than those given in previous statements. The increase is due to the severe crisis which broke out in Italy in 1893. In 1880 the uncollected notes represented only 0.28 per cent., in 1881, 0.33 per cent., in 1882, 0.27 per cent., and in 1886, 0.22 per cent. of the loans and discounts.

Most of the loans made are small in amount. Statistics compiled from reports furnished by 476 people's-banks show that loans of less than 500 lire form 85 per cent. of the total number and 36 per cent. of the total value, while loans of 500 to 1000 lire form 10 per cent. in number and 21 per cent. in value. These figures are fairly representative for the whole kingdom, but loans of less than 500 lire form 76.91 per cent. even in Lombardy, where the proportion is lowest, and 98.32 per cent. in Sardinia, where it is largest.

The long-time loans and renewals give rise to much less business. The loans are granted upon security to the extent of four fifths of its value and run for rather long terms; the continuations are for almost the full value of the security, but are redeemable on short notice. At the close of December 1893, the long loans pending amounted to a little less than 12 million lire, and the continuations to almost 20 millions. In this latter figure the share of Lombardy alone was 17.5 millions.

Long-time loans are usually of small amount—a tendency which has increased from year to year. In 1876 the long loans of 1000 lire or less formed 60 per cent. of the total; in 1880, 78.66 per cent.; in 1886, 95.76 per cent.; and in 1893, 96.81 per cent.

But loans may be required even by those who have no security to offer other than their personal promise. To answer this demand loans upon honor have been introduced. All the banks, however, do not transact this kind of business, and even among those that do, certain restrictions are imposed. Some banks make loans of this character to their own members only; others include members of mutual benefit societies; still others allow

their members a maximum loan of twice that accorded to strangers. Usually a fixed sum of larger or smaller amount is reserved for this kind of business. In 1893 the sum thus reserved by the banks was 474,785 lire; the loans made in the same year were 621,471 lire. At the end of December 1893, 6060 such loans, amounting to 354,222 lire, were outstanding.

Depositors are by some banks permitted to overdraw their accounts, provided that they have given security by pledges, mortgages, or additional signatures. Agrarian loans for periods varying from one to five years are also made by fourteen banks which at the end of December 1893, had outstanding 126 such loans, amounting to 169,012 lire.

Not only do the rates at which these different kinds of operations are effected vary, but different banks charge different rates for loans of the same kind. The differences are very considerable, and, to avoid entering into useless details, only the maximum and minimum rates for the different sorts of transactions are given below:

					Maximum rates	Minimum rates
Current accounts	-	-	-		1½-12 per cent.	1½- 6½ per cent.
Savings deposits	-	-	-	-	3-10 "	2¼- 7 "
Interest-bearing bonds	-	-	-		3¼-10 "	1½- 8 "
Rediscounts	-	-	-	-	4-10 "	2- 9 "
Loans	-	-	-	-	1¼-16 "	1¼-10 "
Discounts	-	-	-	-	4½-10 "	4½-12 "
Long-time loans	-	-	-		4½-12 "	4½-12 "

The variations are due in part to the different forms of deposits, the rate varying according as they are payable on demand or on 3, 6, 9, or more months' time. The same is true of loans and discounts, the terms on which they are made varying with the length of time they have to run. In examining the more detailed statistics one finds that with the great majority of banks the rates upon "passive" operations (current accounts, savings deposits, interest-bearing bonds, and rediscounts) have varied from 3 to 5 per cent. For other transactions (loans, discounts, long-time loans, etc.) the rates of 6 to 9 per cent. have been

common. It is to be noted that this is a decided increase over the figures reported in 1886.¹

The dividends distributed by people's-banks are gradually diminishing. While in proportion to the paid-up capital the average was 9.49 per cent. in 1880, in 1886 it was 8.26 per cent., and in 1893 6.63 per cent.. It is especially the higher interest paid by the banks that is the cause of this decrease.

The transactions of country banks are both fewer and less in amount than those of the people's-banks. They consist almost entirely of loans granted to members, often very small sums used for the most varied purposes.² The rate charged is usually lower than that charged by the people's-banks, this being accounted for by the fact that they have no capital upon which interest must be paid. The necessary funds are obtained from deposits, but the Catholic banks, established in Italy some years since, lend ready support to the Catholic country banks.³ The statistics commonly given are deficient, but M. Micheli has presented to the Congress of Garber the following figures, which make it possible to calculate the importance of country banks. These figures apply to Catholic country banks alone.

	Banks	Lire
Deposits - - - - -	407	3,724,721
Money received upon interest - -	301	2,540,472
Loans to members - - - - -	440	5,744,694
Profits - - - - -	373	49,526

The Italian people's-banks are not restricted to granting credit to everyone who requires it. They have reserved part of their profits for the support of widows, besides establishing funds for

¹ Toward the end of 1893 the Bank of Italy was making loans at the following rates: discounts and loans guaranteed by the state, 5 and 6 per cent.; loans upon securities not guaranteed by the state, $4\frac{1}{2}$ to $6\frac{1}{2}$ per cent.; interest on current accounts, $1\frac{1}{4}$ per cent.

² In the Wollemborg banks the loans, although granted on long time, are made in the form of promissory notes running three months, renewable as often as is necessary, the borrower paying each time the expenses of renewal.

³ The first Catholic bank was founded in March 1888, but it was not until 1896 and 1897 that the movement assumed much importance. M. G. Michelli, *Le casse rurali italiane*, enumerates 31. See appendix.

pensioning or helping their employees, and subsidizing technical lecture courses and traveling lectureships upon agriculture. They have especially assisted in the creation of all associations having for their purpose the amelioration of the lot of the poor and the working classes¹ by furnishing the funds necessary to get such enterprises under way. M. Luzzatti could well say in the preface to the investigation of 1893 that if the promoters of the people's-banks have not solved the social problem, they have at least dried many tears, brought a little happiness to the dark homes of poverty, and shown experimentally that honest and well-meaning people may hope for a better future.

G. FRANÇOIS.

DOUAI, June 1899.

BIBLIOGRAPHY.

- Francesco Vigano—*Banques populaires*, Paris, 1875.
 Léon Say—*Dix jours dans la Haute Italie*, Paris, 1883.
 L. Hiernaux—*Organisation du crédit au travail*, Paris, 1884.
 Alph. Courtois—*Banques populaires*, Paris, 1890.
 L. Durand—*Le crédit agricole en France et à l'étranger*, Paris, 1871.
 Eug. Rostand—*Une visite à quelques institutions de prévoyance en Italie*, Paris, 1891.
 Banche popolari—(Ministerio di agricoltura, industria e commercio), Rome, 1895.
 Henry W. Wolff—*People's Banks*, London, 1896.
 A History of Banking in all the Leading Nations (Vol. III), New York, 1896.
 Eug. Rostand—*Le concours des caisses d'épargne au crédit agricole*, Paris, 1897.
 G. Micheli—*Le casse rurali italiane*, Parma, 1898.
 L. Mabillean, Ch. Rayneri et C. de Rocnigny, *La prévoyance sociale en Italie*, Paris, 1898.
 V. Niccoli—*Co-operative rurali*, Milan, 1899.
 Bulletin du crédit populaire, Paris.
 Comptes rendus des neuf premiers congrès du crédit populaire, Paris, 1889–1897.

¹ Workingmen's co-operative associations, building-aid societies, co-operative dairy farms, agricultural syndicates, etc.